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No. 87-38

IN THE

Supreme Court of the United States

OCTOBER TERM, 1987

GRANADA ELECTRONICS, INC.,
Petitioner,

v.

ORIGINAL APPALACHIAN ARTWORKS, INC.
Respondent.

AMICUS CURIAE BRIEF OF THE COALITION FOR COMPETITIVE IMPORTS IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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The Coalition for Competitive Imports respectfully submits this brief as amicus curiae in support of the petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit filed by Granada Electronics, Inc.[1]

INTEREST OF THE AMICUS CURIAE

The Coalition for Competitive Imports is an ad hoc coalition of trade associations and companies which are independent American importers, distributors, and retailers of free market, price-competitive trademarked consumer products, sometimes called "parallel imports."[2]

[1] Pursuant to Rule 36.1 of this Court, consent to the filing of this brief has been granted by all parties. Their consents have been filed with the Clerk.

[2] For purposes of this brief, the Coalition for Competitive Imports includes, among others, the American Free Trade Association, the American Consumer Trade Council, K mart Corporation, Best Products, Inc., and Gruen Marketing Corporation.

Parallel imports, also known as gray market goods, are genuine trademarked consumer products, such as fragrances, 35mm cameras, electronic products, and watches, which are typically manufactured abroad and imported by independent American importers rather than by "authorized" U.S. importers and distributors. Parallel imports exist because the manufacturers, for reasons of their own, seek significantly higher prices for their products in the United States than elsewhere in the world. They do this by creating wholly-owned or controlled subsidiaries in this country, designating those companies as the exclusive "authorized" importers and distributors for their products here, and refusing to sell to retailers who will not maintain the higher prices for the products.

The obvious result in a free enterprise, free trade market is that independent American importers can purchase the same products overseas at the world price, often even directly from the manufacturers' "authorized" distributors abroad. The foreign manufacturers' price differential for the U.S. market is so great that, even after paying shipping costs and U.S. Customs duties, the parallel importer can offer these popular articles for twenty to forty percent less than the U.S. "authorized" distributor.

The result is a saving to American consumers amounting to billions of dollars a year. Another result is the availability of popular products to a much wider spectrum of Americans who do not live in the large cities where the exclusive authorized stores are generally located. The parallel import trade also serves as an independent bulwark against unrestrained increases in the domestic prices of imported consumer goods as compared to prices available worldwide.

A substantial American industry of importers, distributors and retailers, with hundreds of thousands of employees, serves the millions of American consumers who buy these popular, foreign-made products at the prices they would pay if they could shop for them abroad. The retailers of parallel imports are responsible for total consumer sales of $100 billion a year. The parallel import industry also makes an enormous investment in the good will of trademarked products through its own widespread advertising and marketing of these products.

The Coalition has a vital stake in the outcome of this case. The instant challenge under the trademark laws is just one prong of a full-scale attack by some manufacturers who are attempting to eliminate the legitimate and beneficial competition presented by the parallel importation of their own products. Coalition members have actively participated in resisting these attacks, including opposing the challenge, which is currently pending before the Court, to the Customs regulation and policy that has made parallel importation possible for more than half a century. *Copiat v. United States*, 790 F.2d 903 (D.C. Cir. 1986), *cert. granted*, 93 L.Ed.2d 699 (1986).[3]

The Coalition supports the petitioner's contention that the court of appeals erred in its interpretation of Section 32 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1114(a)(1). The Coalition believes that a U.S. registered trademark owner may not prevent the sale in the United States of genuine trademarked articles that have been introduced by the trademark owner, or its licensees, in the international market and imported by independent importers into the United States.

STATEMENT OF THE CASE

This case involves a challenge under the Lanham Act to the sale in the United States of genuine trademarked "Cabbage Patch Kids" ("CPK") dolls imported by petitioner, an independent American importer. The respondent is the United States owner of the registered trademark "Cabbage Patch Kids" and is also the manufacturer and distributor of hand-sewn, soft sculpture CPK dolls in the United States. In addition, through a licensing agent, respondent has licensed other companies, both in the United States and worldwide, to

[3] Coalition members have participated in other challenges to parallel importation, including *Vivitar Corp. v. United States*, 593 F.Supp. 420 (C.I.T. 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 88 L.Ed.2d 769 (1986); *Olympus Corp. v. United States*, 627 F.Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d. Cir. 1986); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d. Cir. 1983), *vacating and remanding*, 548 F.Supp. 1068 (E.D.N.Y. 1982); *Johnson & Johnson Products, Inc. v. Dal International Trading Co.*, 798 F.2d 100 (3d Cir. 1986).

manufacture, promote and distribute the smaller, less expensive, mass-produced CPK dolls which have vinyl, as opposed to soft sculpture, heads and which are the dolls in question in this case. Respondent includes restrictions in these license agreements prohibiting its licensees from making, selling or authorizing for sale the CPK dolls outside of their respective license territories.

In the United States, respondent has licensed Coleco Industries, Inc. ("Coleco") to manufacture, promote and distribute the smaller, vinyl CPK dolls. Overseas, the respondent has licensed, among others, Jesmar, S.A. ("Jesmar") to manufacture and distribute the CPK dolls. Jesmar is licensed to distribute CPK dolls in Spain, the Canary Islands, Andorra and Ceuta Melilla.

All of the CPK dolls, whether manufactured in the United States or overseas, are accompanied by "birth certificates" and "adoption papers" which may be filled out by the purchaser. When the completed "adoption papers" are returned to the manufacturer, the "adopting parent" receives a "birthday card" on the first anniversary of the adoption.

In 1985, petitioner sought unsuccessfully to purchase Coleco-manufactured CPK dolls in the United States. Petitioner was subsequently offered Jesmar-manufactured CPK dolls by a United Kingdom merchant. Petitioner learned through its customs broker that, due to respondent's registration of the CPK trademark with the Customs Service and listing of Jesmar as an overseas licensee, Jesmar-manufactured CPK dolls could legally be imported into the United States.[4] Petitioner thereafter purchased the Jesmar dolls and imported and distributed them in the United States.

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[4] For more than fifty years, Customs Service regulations, based upon the Tariff Act of 1922 and the Tariff Act of 1930, 19 U.S.C. 1526, have permitted parallel importation under specific, narrowly-defined circumstances. The current regulation, in place since 1972, permits parallel importation when the foreign and U.S. trademark holders are (1) the same company or (2) under common ownership or control, or (3) where, as in the present case, the U.S. trademark owner has authorized the placing of the mark on the product. 19 C.F.R. 133.21(c). In these cases, the regulation does not permit a trademark owner to block the entry of the parallel imports.

The Jesmar dolls purchased by petitioners bear the CPK trademark displayed in English on all panels of the box except the bottom panel. The boxes also display the words, "The World of," preceding the CPK trademark on the rear panel and display respondent's name and address in English in the copyright notice. The remaining words on the box of the Jesmar dolls, as well as the accompanying adoption papers, birth certificates and instructions, are in Spanish.

Respondent brought suit against petitioner in the United States District Court for the Southern District of New York alleging infringement of respondent's U.S.-registered CPK trademark and U.S.-registered copyright on the design of the dolls. *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 640 F. Supp. 928 (S.D.N.Y. 1986).[5] The district court found that "[t]he Jesmar CPK dolls with the foreign language birth certificates, adoption papers and instructions are materially different from the Coleco CPK dolls with English language papers." *Id.* at 933. The court also found that the public confused the Spanish-language dolls with the Coleco English-language dolls and held that petitioner's sale of the dolls in the United States therefore violated Section 32 of the Lanham Trademark Act of 1946, 15 U.S.C. § 1114(a)(1) (1982). *Id.*

On appeal, the United States Court of Appeals for the Second Circuit affirmed the district court's ruling. *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987). The court stated that "even though the goods do bear [respondent's] trademark and were manufactured under license with [respondent], they are not 'genuine' goods because they differ from the Coleco dolls and were not authorized for sale in the United States." *Id.* at 73.

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[5] At trial, respondent's copyright claim was voluntarily dismissed with prejudice.

REASONS FOR GRANTING THE WRIT

The court of appeals decision below is in direct conflict with the decision of the United States Court of Appeals for the Ninth Circuit in *NEC Electronics, Inc. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).[6] Faced with these conflicting decisions, and the looming threat of similar challenges in the future if the split in the circuits is not resolved, parallel importers, retailers and wholesalers cannot rely, without relief from this Court, upon the uninterrupted stream of commerce that is vital to the survival of this industry and to continued savings to U.S. consumers of popular trademarked products. The commercial uncertainty posed by the court of appeals' decision below, and others that may follow if the decision is not reversed, could ultimately lead to the end of parallel importation and consumer savings.

Moreover, resolution of the challenge, currently pending before the Court, to the Customs regulation that permits parallel importation will not completely relieve the threat to the parallel import industry. If the present attack under the Lanham Act is not rejected by the Court, parallel importation will be endangered regardless of whether the Court upholds the Customs regulation in the *COPIAT* case. In that event, millions of consumers nationwide could lose the enormous savings made available by parallel imports, and in many cases, lose the availability of some of these products at any price. Accordingly, the Court should grant petitioner's writ and reverse the decision of the court below, so that parallel importation is not further chilled by erroneous interpretations of the trademark laws.

The basis for the court of appeals' decision below was its determination that the CPK dolls imported by petitioner were not "genuine," even though the dolls were admittedly manufactured pursuant to the terms of the respondent's license agree-

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[6] The court's decision below also conflicts with the Ninth Circuit's earlier decision in *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983). Moreover, the Second Circuit's decision in *El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986) is also inconsistent with *NEC* and *Monte Carlo*.

ment with Jesmar and were physically identical to the Coleco dolls. According to the court, the Jesmar dolls were not intended by respondent to be sold in the United States, and more importantly for the court, the Jesmar dolls were materially different from the Coleco CPK dolls sold in the United States because of the Spanish language birth certificates and adoption papers. The court's legal conclusion concerning the genuineness of the CPK dolls conflicts with the holding of the Ninth Circuit in *NEC Electronics, Inc. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).

NEC involved a challenge to the independent importation of computer chips that were manufactured overseas by NEC Corporation ("NEC-Japan"). NEC Electronics ("NEC-USA"), a U.S. subsidiary of NEC-Japan and assignee of NEC-Japan's United States trademark rights, sued the importer alleging that the sale of the parallel imported computer chips constituted a trademark infringement under the Lanham Act. The Ninth Circuit rejected NEC-USA's trademark claim, finding that a trademark owner cannot object to the unauthorized sale of "genuine" computer chips bearing the NEC trademark.[7]

The Ninth Circuit found that the computer chips were "genuine" even though, just as in the present case, there was no evidence that either the manufacturer or its U.S. subsidiary "intended" the parallel imported computer chips to enter the United States. More importantly, in *NEC* the Ninth Circuit adopted the district court's finding that "some purchasers from

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[7] The Ninth Circuit noted that the Court's decision in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), is an exception to this general principle but found that the special equities present in *Katzel* did not apply to *NEC*. Similarly, neither of the two rationales for the *Katzel* decision, discerned by the Ninth Circuit, apply in this case. Respondent differs from the purchaser in *Katzel* because respondent is not an arms-length, wholly independent purchaser of all right, title and interest in exclusive trademark rights in the U.S. which now faces competition from its transferor that could destroy the entire benefit of its bargain. Nor is the respondent an independent purchaser of exclusive U.S. trademark rights which—after becoming the true source of trademarked goods in the U.S—could have the value of its trademark destroyed by the importation of foreign-purchased goods whose quality and contents are beyond the respondent's control; respondent retains strict control over the quality and contents of the foreign-made CPK dolls through its license agreements.

Abco mistakenly thought their chips were protected by NEC-USA's servicing and warranties." *NEC*, 810 F.2d at 1508.[8] Thus, although both cases involved products that apparently were not intended to be sold in the U.S. and which, although physically identical, differed in the services accompanying the products,[9] the two courts reached opposite results. The issue presented by these decisions is a classic conflict in the circuits which requires resolution by this Court.

It is also significant that, on the merits, the Second Circuit's interpretation of the Lanham Act is entirely without support. The highly specific language of Section 1114(a)(1) of the Lanham Act—which prohibits the use of ". . . any reproduction, counterfeit, copy, or colorable imitation of a registered trademark . . ."—does not, by its terms, encompass the sale of genuine goods manufactured by the trademark owner or its licensees. In short, trademark law does not prevent the resale of genuine goods bearing a true trademark even though the sale is made without the trademark owner's consent. *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F. Supp. 470, 475 (S.D.N.Y. 1984). "Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark law liability." *NEC*, 810 F.2d at 1509 (citing *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368-69 (1924)).[10]

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[8] The respondents in *NEC* disputed the district court's finding that the parallel imported computer chips differed from the authorized computer chips in service and warranty. However, the Ninth Circuit apparently found this issue irrelevant; the court of appeals reversed the district court's decision and, without disturbing the district court's finding of differences in warranty and services in the products, held that the sale of the genuine parallel imported computer chips could not constitute a trademark violation.

[9] The "adoption" process available with the CPK dolls should be viewed not as part of the product, but rather as a service that accompanies the product, like a warranty. The district court's finding that the "adoption process is an 'important element of the mystique of the [Cabbage Patch Kids] dolls' " is irrelevant. The current "warranty wars" between American automobile manufacturers demonstrate that warranties can substantially contribute to the popularity of a product.

[10] See note 7, *supra*, discussing exceptions to this principle on the special facts of the *Katzel* case.

The standard applied by the Second Circuit in this case is faulty. Whether actionable confusion exists which is protected by the trademark laws should not hinge on the trademark owner's intent as to the ultimate destination of goods sold on the international market. It would be impractical, if not impossible, for a purchaser in a commercial transaction to determine the trademark owner's "intent" in this respect. Furthermore, to base a trademark owner's cause of action upon whether "material" differences exist in products created by the trademark owner, or by a third party under the trademark owner's control, will give the trademark owner incentive to create such differences purposefully. Because Section 5 of the Lanham Act prohibits "related companies" from using a trademark "in such a manner as to deceive the public," 15 U.S.C. § 1055, trademark protection traditionally is granted only to owners who maintain the uniform quality of their trademarked products. *See Oberlin v. Marlin American Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979) (trademark owner must ensure uniform quality of product); *Huntington National Mattress Co. v. Celanese Corp.*, 201 F. Supp. 938, 945 (D.Md. 1962).

The Second Circuit's decision rests on a basic misunderstanding of the purpose of the Lanham Act. The Court has created a trademark remedy, where none exists, because of potentially disappointed consumers who encounter difficulty in completing the adoption process for dolls sold by petitioner. The trademark laws are designed to prevent confusion as to source, not to promote consumer satisfaction. Because respondent's licensee, Jesmar, is the true source of the goods in this case, the Lanham Act does not provide a remedy to respondents. Instead, if consumers have any remedy for the purchase of Jesmar-manufactured dolls with Spanish-language adoption papers, the remedy exists before the Federal Trade Commission or under state consumer protection laws. *See NEC*, 810 F.2d at 1510.

CONCLUSION

In view of the conflict between the circuits, the great significance of the issue to a substantial American industry and to American consumers, and the distortion by the court below of the purpose of the Lanham Act, the Coalition respectfully urges the Court to grant the petition for a writ of certiorari.

Respectfully submitted,

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